

**REPORT OF THE AUDIT OF THE  
FORMER ADAIR COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FORMER ADAIR COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2006**

The Auditor of Public Accounts has completed the former Adair County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$13,823 from the prior year, resulting in excess fees of \$32 as of December 31, 2006. Revenues decreased by \$13,089 from the prior year and expenditures increased by \$734.

**Report Comment:**

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits as of November 8, 2006 were exposed to custodial risk as follows:

- Uncollateralized and Uninsured    \$269,428

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	11
COMMENT AND RECOMMENDATION .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive  
The Honorable Steve Cheatham, Former Adair County Sheriff  
The Honorable Ralph Curry, Adair County Sheriff  
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Adair County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Ann Melton, Adair County Judge/Executive  
The Honorable Steve Cheatham, Former Adair County Sheriff  
The Honorable Ralph Curry, Adair County Sheriff  
Members of the Adair County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Adair County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

January 18, 2008



ADAIR COUNTY  
STEVE CHEATHAM, FORMER SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		\$	57,593
State - Kentucky Law Enforcement Foundation Program Fund			21,976
State Fees For Services:			
Finance and Administration Cabinet	\$	8,542	
Sheriff Security Service		<u>14,385</u>	22,927
Circuit Court Clerk:			
Fines and Fees Collected			13,268
Fiscal Court			67,634
County Clerk - Delinquent Taxes			904
Commission On Taxes Collected			161,244
Fees Collected For Services:			
Auto Inspections		10,310	
Arrest Fees		1,400	
Serving Papers		22,410	
Carrying Concealed Deadly Weapon Permits		<u>6,013</u>	40,133
Other:			
10% Add-On Fee		24,413	
Advertising Fees		3,091	
Traffic Control		700	
Corps of Engineers		22,035	
Purdue Pharmaceuticals		1,595	
Highway Construction		475	
Bond		254	
Miscellaneous		<u>691</u>	53,254
Interest Earned			1,748
Borrowed Money:			
State Advancement			<u>85,000</u>
Total Revenues			<u>525,681</u>

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY  
STEVE CHEATHAM, FORMER SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2006  
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 194,522	
Part-Time Salaries	30,001	
Office Clerks	47,422	\$ 271,945

Employee Benefits-

Employer's Share Social Security	24,292	
Employer's Share Hazardous Duty Retirement	13,628	37,920

Contracted Services-

Advertising	288	
Vehicle Maintenance and Repairs	6,077	6,365

Materials and Supplies-

Office Materials and Supplies	1,740	
Uniforms	2,377	4,117

Auto Expense-

Gasoline		27,605
----------	--	--------

Other Charges-

Equipment	180	
Dues	300	
Tax Bill Preparation	485	
Postage	235	
Training Expense	316	
Cellular Telephones	2,212	
Bond	737	
Carrying Concealed Deadly Weapons Permits	3,440	
Miscellaneous	130	8,035

Capital Outlay-

Vehicles		12,809
----------	--	--------

Debt Service:

State Advancement	85,000
-------------------	--------

Total Expenditures

453,796

Net Revenues

71,885

Less: Statutory Maximum

68,551

Excess Fees

3,334

Less: Training Incentive Benefit

3,302

Excess Fees Due County for 2006

32

Payment to Fiscal Court - March 22, 2007

32

Balance Due Fiscal Court at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ADAIR COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2006  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 8, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured      \$269,428

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Drug Enforcement Account

Drug investigation funds are to be used for drug enforcement expenses of the Sheriff's office and kept separate from the Sheriff's fee account. As of January 1, 2006, the beginning balance was \$10,648. During 2006, the Sheriff's office received \$51,381 of forfeited money from drug related arrests in the county and expended funds of \$37,814. As of December 31, 2006, the ending balance was \$24,215.

Note 5. High Intensity Drug Trafficking Grant

The Adair County Sheriff's office received a High Intensity Drug Trafficking Area Grant to combat drugs in Adair County. During 2006, the Sheriff's office received and expended total funds of \$46,203.

Note 6. Community Oriented Policing Services (COPS) Grant

The Adair County Sheriff's office received a Community Oriented Policing Services (COPS) grant from the U.S. Department of Justice. These funds are used to fund salaries and fringe benefits of police officers within the Adair County schools. During 2006, the Sheriff's office received and expended total funds of \$11,390.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive  
The Honorable Steve Cheatham, Former Adair County Sheriff  
The Honorable Ralph Curry, Adair County Sheriff  
Members of the Adair County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Adair County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated January 18, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Adair County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Adair County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Adair County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Adair County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Adair County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

January 18, 2008

COMMENT AND RECOMMENDATION



ADAIR COUNTY  
STEVE CHEATHAM, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our review of internal controls, we noted that the former Sheriff's office lacked adequate segregation of duties over receipts and disbursements. The bookkeeper that prepared the ledgers also took in cash, opened mail, made deposits, and reconciled the bank account. The bookkeeper also prepared, signed, and posted disbursement checks to the disbursements ledger. The office clerk who prepared daily checkout sheets also collected money, opened mail, and made deposits. The same office clerk also prepared individual earning records and payroll checks and reconciled the payroll account. The former Sheriff should have segregated duties or implemented compensating controls as noted below to offset this internal control weakness:

- The former Sheriff should have recounted the daily bank deposit prepared by another employee and compared the deposit to the daily checkout sheet. Any differences should have been reconciled. He could have documented this by initialing the bank deposit and daily checkout sheet.
- The former Sheriff should have examined the receipts ledger on a regular basis and compared it to daily checkout sheets. He could have documented this by initialing the daily checkout sheets.
- The former Sheriff should have examined payroll checks prepared by another employee and distributed the checks to employees.
- The former Sheriff should have examined checks prepared by another employee and compared invoices or monthly reports to payments. He could have documented this by initialing the invoices and the monthly reports.
- The former Sheriff should have examined the bank reconciliation prepared by another employee and compared the balance to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: None.*

